

TAX REFUNDS MAY GET BIG JUMP NEXT YEAR

WASHINGTON -- Federal tax refunds, already at a record average of \$1,325 this year, are likely to be higher for many taxpayers in 1999, according to the Internal Revenue Service. New tax credits -- especially the child tax credit -- will lower taxes for many parents, resulting in larger refunds. Tax credits are a dollar-for-dollar reduction in the amount of tax owed.

But taxpayers don't have to wait until next year to pocket this money. They can reduce the taxes withheld from their pay now, so that the withholding more closely matches their tax. While some people like big refunds, others prefer to keep the money in their paychecks throughout the year.

IRS Publication 919, "Is My Withholding Correct for 1998?," explains how to factor in the benefits of the new child and higher education tax credits when adjusting your withholding. It also includes the Form W-4 to be given to an employer to change the amount of tax withheld.

The child tax credit is \$400 for each eligible dependent under the age of 17, rising to \$500 per child in 1999. However, the credit begins to phase out for single taxpayers with incomes of more than \$75,000 (\$110,000 for joint returns; \$55,000 for married persons filing separately). The credit is reduced by \$50 for each \$1,000 -- or part thereof -- of income above these amounts.

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For example, a working couple with less than \$110,000 of income and two qualifying children would have an \$800 credit. But if their combined income was \$113,200, they would reduce the \$800 by \$200 ($\$50 \times 4$), leaving a \$600 child tax credit. The income level at which the credit vanishes depends on the number of qualifying children the taxpayer has.

The child tax credit normally cannot be more than the tax liability, with exceptions for some taxpayers who have three or more qualifying children.

Also new for 1998 are two higher education tax credits -- the Hope credit and the lifetime learning credit. Both are based on tuition and related fees paid for the taxpayer, spouse or an eligible dependent. They do not include the costs of books, room and board, activities fees, transportation, etc. Expenses paid with a tax-free scholarship, Pell grant, or employer-provided educational assistance do not qualify. The student must be enrolled for at least one academic period -- semester, trimester, or quarter -- during the year. For each eligible student, a taxpayer may claim only one of the education credits in a single tax year.

The Hope credit is available for only the first two years of post-secondary education. The credit is equal to the first \$1,000 of tuition for each eligible student, plus half of the next \$1,000. This gives a maximum credit of \$1,500 on expenses of \$2,000 or more. The Hope credit applies to payments made after 1997, for academic periods beginning after that year.

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The lifetime learning credit, which begins July 1, is available for any level of higher education. The credit is 20 percent of the tuition paid for all eligible students, with a maximum credit of \$1,000 per year. For example, a woman who paid \$1,000 for courses she took in a summer quarter which began in July and \$4,500 in fall semester tuition for her son's third year of college would face the \$1,000 credit limit, since 20 percent of her total tuition expenses (\$5,500) is \$1,100.

The higher education credits phase out ratably for taxpayers with incomes from \$40,000 to \$50,000 (\$80,000 to \$100,000 for joint returns). A married couple with income of \$90,000 -- half way through the phaseout range -- would reduce the credit they would otherwise claim by 50 percent. Taxpayers with incomes above those amounts, and married persons filing separately, cannot claim the education credits.

IRS Publication 553, "Highlights of 1997 Tax Changes," contains details on these credits and other new tax provisions for this year. Pub. 553 and Pub. 919 may be downloaded from the IRS Web site at www.irs.ustreas.gov, and are available by calling (toll-free) 1-800-TAX-FORM.

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